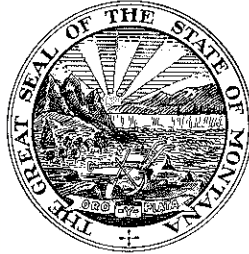


STATE OF MONTANA

Public Employees' Retirement Board

A Component Unit of the State of Montana

Comprehensive Annual Financial Report



**For the Fiscal Year Ended
June 30, 2008**

Public Employees' Retirement System - Defined Benefit Retirement Plan

Judges' Retirement System

Highway Patrol Officers' Retirement System

Sheriffs' Retirement System

Game Wardens' and Peace Officers' Retirement System

Municipal Police Officers' Retirement System

Firefighters' Unified Retirement System

Volunteer Firefighters' Compensation Act

Public Employees' Retirement System - Defined Contribution Retirement Plan

Deferred Compensation (457) Plan

**Prepared By:
The Fiscal Services Bureau
Public Employee Retirement Administration
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Helena, MT 59620-0131
(406) 444-3154**

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Mission Statement of the PERB

The Montana Public Employees' Retirement Board will fiduciarily administer its retirement plans and trust funds, acting in the best interest of the members and beneficiaries.

Mission Statement of the MPERA

The Montana Public Employee Retirement Administration will efficiently provide quality benefits, education and service to help our plan members and beneficiaries achieve a quality retirement.

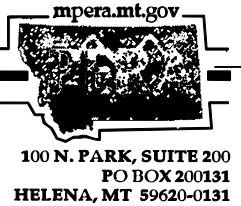
PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION



BRIAN SCHWEITZER
GOVERNOR

STATE OF MONTANA

HELENA (406) 444-3154
TOLL FREE (877) 275-7372
FAX (406) 444-5428



November 21, 2008

The Honorable Brian Schweitzer
Governor of Montana
Room 204, State Capitol
PO Box 200801
Helena, MT 59620-0801

Dear Governor Schweitzer:

The Public Employees' Retirement Board (PERB) and its staff, the Montana Public Employee Retirement Administration (MPERA), are pleased to submit this *Comprehensive Annual Financial Report* (CAFR) for the fiscal year ended June 30, 2008, in accordance with 19-2-407, Montana Code Annotated. The purpose of this letter is to introduce the basic financial statements and provide an analytical overview of the trust funds' financial activities.

The management of Montana Public Employee Retirement Administration assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. This CAFR was prepared in conformance with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board, including the Management's Discussion and Analysis (MD&A). Defined benefit and defined contribution transactions are reported on the accrual basis of accounting. The MD&A, beginning on page 17, is a management discussion of the financial position of the retirement plans. It provides an overview and analysis of the plans' basic financial statements. This letter of transmittal is intended to complement the MD&A and the two should be read in conjunction.

ORGANIZATIONAL STRUCTURE AND REPORT CONTENTS

The PERB is a discretely presented component unit Pension Trust Fund of the State of Montana financial reporting entity. For this reason, the financial statements contained in this report are also included in the State of Montana's *Comprehensive Annual Financial Report*. Fiduciary responsibility for the systems rests with the PERB, which consists of seven members, appointed by the Governor. The members are assigned five-year, staggered terms. The Board is required to approve a final budget before the beginning of the fiscal year. The MPERA management develops the budget for all plans administered and presents it to the Board. As gov-

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erned by statute, the Board's defined benefit administrative expenses may not exceed 1.5% of the total defined benefit plan retirement benefits paid. Costs for the Board to administer the defined contribution plans are included as part of the administrative expenses of the plans. The budget is monitored throughout the year and quarterly updates are provided.

The Public Employees' Retirement Board administers ten separate retirement plans, each reported in this CAFR. They include the *Public Employees' Retirement System-Defined Benefit Retirement Plan* (in its 64th year of operation) and *Public Employees' Retirement System-Defined Contribution Retirement Plan*, *Judges' Retirement System*, *Highway Patrol Officers' Retirement System*, *Sheriffs' Retirement System*, *Game Wardens' and Peace Officers' Retirement System*, *Municipal Police Officers' Retirement System*, *Firefighters' Unified Retirement System*, *Volunteer Firefighters' Compensation Act* and the *Deferred Compensation (457) Plan*. The CAFR is divided into the following five sections:

- an *Introductory Section*, which contains the table of contents, this letter of transmittal and administrative organization;
- a *Financial Section*, which contains the report of the Independent Auditors, Management's Discussion and Analysis, financial statements of the PERB, notes to the financial statements, certain required supplementary information and supporting schedules of administrative expenses, investment expenses and payments to consultants;
- an *Investment Section*, which contains a report on investment activity, investment policies, investment results and various investment schedules;
- an *Actuarial Section*, which contains the Actuary's Certification Letter and the results of the latest actuarial valuation; and,
- a *Statistical Section*, which includes significant data pertaining to the plans.

The pages that follow report the facts and figures that are the result of dedicated work, new initiatives, improved processes and continuing efforts made to meet the needs of our customers. We trust that you and the members of the plans will find this CAFR helpful in understanding the retirement plans.

ECONOMIC CONDITION AND OUTLOOK

The economic outlook of the plans is based primarily upon investment earnings. For fiscal year 2008, the PERS-DBRP experienced a negative 4.9 percent rate of return; for the last three years an average annualized rate of return of 6.97 percent; for the last five years an average annualized rate of return of 8.47 percent; and for the last ten years an average annualized rate of return of 5.47 percent. The plans are required by law to be maintained on an actuarially sound basis which protects participants' future benefits.

The positive returns in fiscal year 2007 and the legislation passed in the 2007 Legislative Session to address the unfunded liability of PERS, SRS and GWPORS countered the negative effect on earnings of the bear markets of 2001 and 2002 and the negative return for FY 2008. We anticipate that over the long-term the earning rates will continue to meet the actuarial assumed rate of 8 percent.

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Effective July 1, 2007, House Bill 131 addressed the funding issue by increasing employer contributions or setting a new Guaranteed Annual Benefit Adjustment (GABA) or both for new hires on or after July 1, 2007 in the PERS-DBRP, PERS-DCRP, SRS and GWPORS.

The actuarial valuations for the eight defined benefit plans, dated June 30, 2008, show all the plans to be actuarially sound, with one plan having an Unfunded Credit. The amortization period for the Unfunded Liability (Actuarial Surplus) for the defined benefit plans, as of June 30, 2008, are as follows:

| | | | |
|-------|--------------------------------|--------|------------|
| PERS | 24.8 years | GWPORS | 13.0 years |
| JRS | 30.0 years (Actuarial Surplus) | MPORS | 18.6 years |
| HPORS | 17.4 years | FURS | 11.3 years |
| SRS | 16.3 years | VFCA | 5.0 years |

The PERB contracts with consultants for professional services, which are essential to the effective and efficient operation of the plans. A listing of consultants the PERB has contracted with can be found on page 85.

The investments of the pension trust funds are governed by an investment standard known as the “prudent expert principle.” The prudent expert principle is constitutionally and statutorily mandated and establishes a standard for all fiduciaries, which includes anyone having authority with respect to the pension trusts. The prudent expert principle states that fiduciaries will discharge their duties solely in the interest of the trust funds’ participants and beneficiaries and with the degree of diligence, care and skill which prudent experts would ordinarily exercise under similar circumstances in a like position. By following the prudent expert principle and permitting further diversification of investments within a fund, the fund may reduce overall risk and increase returns. The prudent expert principle permits the Board of Investments (BOI) to establish an investment policy based upon certain investment criteria and allows for the delegation of investment authority to the BOI. The statement of investment policy outlines the responsibility for the investment of the funds and the degree of risk that is deemed appropriate for the trust funds. Investment officers are to execute the investment policy in accordance with statutory authority but are to use full discretion within the policy and guidelines. A summary of the asset allocations can be found in the *Investment Section* of this annual report.

Pension trust funds are considered well-funded when there is enough money and contributions to amortize any unfunded liability in 30 years or less. The PERB’s funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated versus the actuarial accrued liability and the greater the level of investment potential. A well-funded plan allows participants to see that their assets are committed to the payment of benefits. A detailed discussion of funding is provided in the *Actuarial Section* of this annual report.

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The *Statistical Section* of this annual report includes the five objectives according to GASB Statement 44 - financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information; and incorporates statistics regarding retirees and employers' contributions, assets held and benefits or distributions paid.

The PERS-DCRP was implemented July 1, 2002. New hires in PERS have the option of choosing participation in either the defined benefit retirement plan (DBRP) or the defined contribution retirement plan (DCRP) within 12 months of hire. University employees have a third option of joining the Optional Retirement Program (ORP) administered by the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF New York, NY).

Education to our members and employers is a top priority and funded by a percentage of employer contributions. All new hires are offered Plan Choice Educational workshops. We continue to add workshops and provide additional member services through our website.

The PERS-DCRP investment options offered are selected by the PERB in compliance with their Investment Policy Statement and with the assistance of the statutorily-created Employee Investment Advisory Council and the advice of the third-party consultant. Participants of the PERS-DCRP direct the investment of their contributions and a portion of their employer's contributions among the offered investment options. The remaining portion of their employer's contributions is used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP and to fund an employee education program.

Fiscal year 2008 accomplishments of MPERA include: establishment of a Business Process Workflow directory structure and completion of the workflows for some positions; implementation of a benefit estimator allowing member services to estimate retirement benefits for PERS members; implementation of Employer Reporting All Employees (ERA-E) Phase 1 giving employers the ability to report non-contributing employees with their payroll; integration of House Bill 131 which implemented a GABA decrease of 1.5% for employees hired on or after July 1, 2007; and completion of various requirements of the Pension Protection Act of 2006. Technology was used to automate processes and enhance internal controls on the Retiree Database.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Montana Public Employees' Retirement Board for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the tenth consecutive year that the Montana Public Employees' Retirement Board has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized *Comprehensive Annual Financial Report*. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current *Comprehensive Annual Financial Report* con-

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tinues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

PUBLIC PENSION COORDINATING COUNCIL PUBLIC PENSION STANDARDS AWARD

MPERA has also received the Public Pension Coordinating Council (PPCC), Public Pension Standards Award for 2008 in recognition of meeting the professional standards for plan design and administration set forth in the Public Pension Standards. Public Pension Standards were established in 2002 to reflect minimum expectations for public retirement system management and administration. The Standards serve as a benchmark by which to measure public defined benefit plans. All public retirement systems and the state and local government that sponsor them are encouraged to meet the Standards. This is the fourth time MPERA has received this award.

ACKNOWLEDGEMENTS

The compilation of this report reflects the efforts of the fiscal services bureau accounting staff of the Montana Public Employee Retirement Administration. This report is intended to provide complete and reliable information to facilitate the management decision process, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the plans' funds. As in the past, MPERA received an unqualified opinion from our independent auditors on the financial statements included in this report. This opinion provides assurance that the financial statements can be relied upon. The independent auditor's opinion letter can be found on page 15.

The reporting employers of each retirement system form the link between the plans and the members. Their cooperation contributes significantly to the success of the plans. We hope the employers and their employees find this report informative.

We would like to take this opportunity to express my gratitude to the staff, the advisors and the many people who have worked so diligently to assure the successful operation of the plans.

Respectfully submitted,

/s/ Roxanne Minnehan

Roxanne Minnehan, Executive Director
Montana Public Employee Retirement Administration

/s/ John P. Paull

John P. Paull, President
Public Employees' Retirement Board

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Montana Public Employees' Retirement Board

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, reading "Charles S. Cox".

President

A handwritten signature in black ink, reading "Jeffrey R. Emer".

Executive Director



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2008***

Presented to

***Montana Public Employee Retirement
Administration***

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads 'Alan H. Winkle'.

Alan H. Winkle
Program Administrator

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Public Employees' Retirement Board

A Component Unit of the State of Montana



Photo courtesy of Kim Flatow

Back Row: John P. Paull, Jay Klawon, John Nielsen and Terrence Smith.
Front Row: Dianna Porter, Darcy Halpin and Ray Peck.

John P. Paull, President
Butte
Active Public Employee
Firefighter
Term Expires 3/31/2010

John Nielsen, Vice President
Glendive
PERS Active Public
Employee
Term Expires 3/31/2012

Dianna Porter
Butte
Public Representative
Term Expires 3/31/2013

Terrence Smith
Bozeman
PERS-DCRP Active Public
Employee
Financial Officer
Big Sky Water & Sewer
District
Term Expires 3/31/2009

Darcy Halpin
Belgrade
PERS Retired Member
Term Expires 3/31/2013

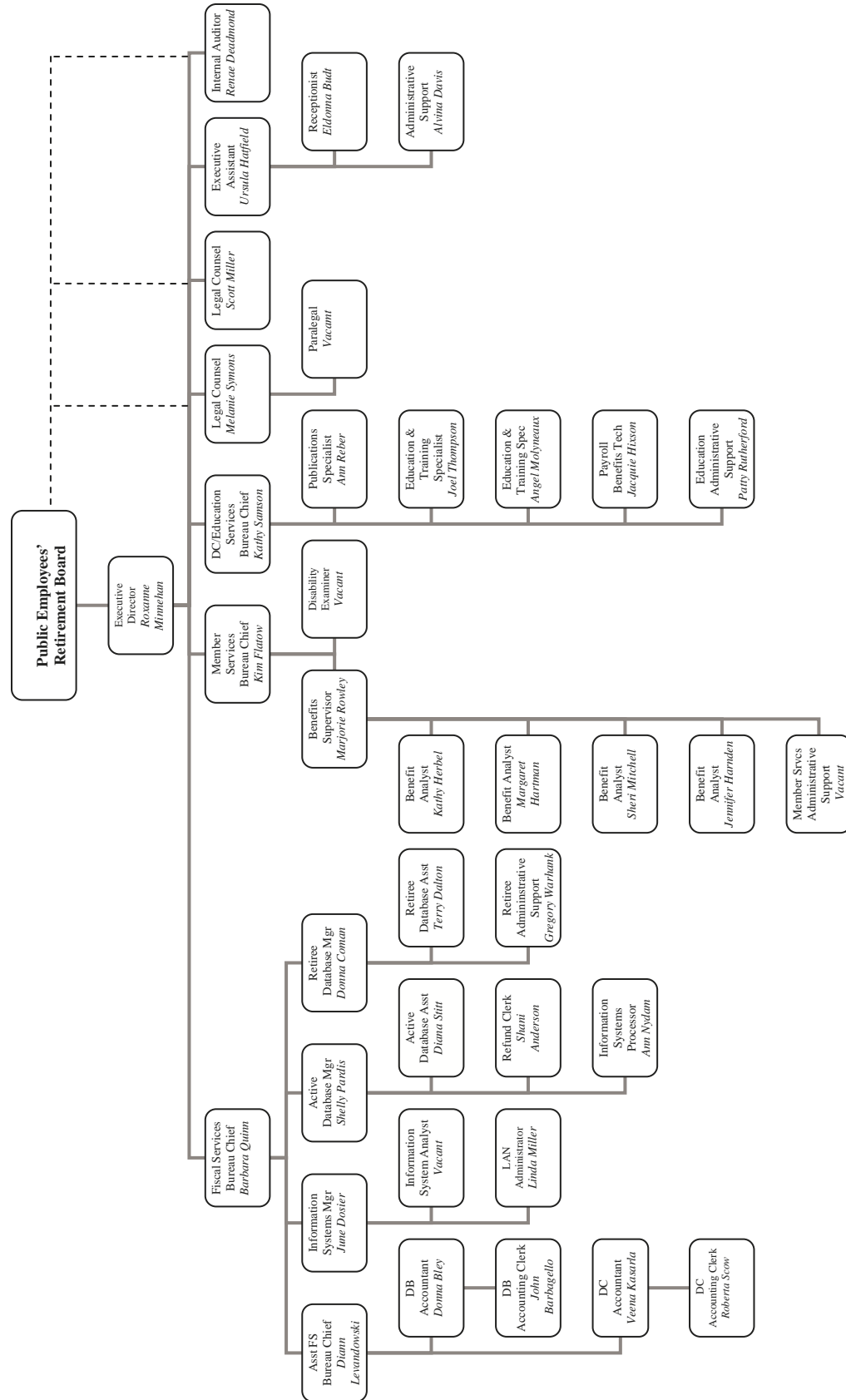
Ray Peck
Helena
Public Representative
Term Expires 3/31/2011

N. Jay Klawon
Past President, Resigned
Hamilton
Investment Experience
Investment Representative
Edward Jones
Term Expires 3/31/2009

Public Employees' Retirement Board

A Component Unit of the State of Montana

MPERA Organizational Chart



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